Effectivity of Corporate Governance on Financial Performance of IT Companies in India with Special Reference to Corporate Board

Twinkle Prusty & Saurabh Kumar
Banaras Hindu University, Varanasi, UP, India

(Received: 15/03/2016 ; Accepted: 02/06/2016)

Abstract

The purpose of this paper is to examine the extent to which corporate governance through the board performance, impacts the financial performance of selected IT companies in India. The study identifies whether there is any significant relationship between the board committee (BC) and composition of board (COB) with ROA & ROCE of the selected IT companies. The paper studies the annual reports of top 5 Indian listed companies on the basis of their net worth as on February 2016, representing the Information technology firms (namely, TCS; Infosys; Wipro; HCL Technologies; and Tech Mahindra) in the country while constructing a Board Governance Score, that not only advocates the voluntary disclosure of corporate governance but its implications on the financial performances while taking the interests of all stakeholders involved. The study period considered for the research is one year i.e. from 2014 to 2015. The study shows that there is a significant positive relationship between the board governance and financial performance of selected IT companies. Both, board committee (BC) and composition of board (COB) have shown positive correlation with ROA & ROCE but BC has shown its significant impact also on ROA & ROCE. The study, along with the support of large number of literatures clearly indicates that the role of board cannot be neglected. The activities of board should be peculiarly watched and managed. The company should not try to maintain board size just for the sake of law only but the board size should consist of right amount of competent executive and independent directors who can perform their role actively. The relationship between corporate governance and financial performance of companies is particularly important from the view point of stakeholders. Results revealed that there is heterogeneity in the board operations of different companies. Basically the research involves the study period of only one year, i.e., 2015. A further limitation lies in the subjective nature of crafting a governance index. Although every effort was made to minimize this subjectivity but it cannot be completely removed.

Keywords: Board of Directors, Financial Performance, Corporate Governance
JEL Classification: G34, G38
Paper Classification: Research Paper

Introduction

The world has seen many corporate scams and scandals till date which has hampered the trust and faith of stakeholders on the governance and controlling mechanism of large organisations. Some of Indian MNCs like ‘Satyam’ also have made the investors feel distressful over the